



## COUNTY OF PLACER

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**June 22, 2004**

**Honorable Board of Supervisors  
County Departments and Employees  
Members of the Public**

**SUBJECT: Fiscal Year 2004-05 Placer County Proposed Budget**

### Introduction

Pursuant to the direction of the Board of Supervisors and the requirements of the State law and the Placer County Charter, I submit for your consideration the Proposed Budget for fiscal year 2004-05. This document contains County Executive Office (CEO) recommendations for the allocation of funds anticipated to be available in the coming fiscal year and represents an extensive collaborative effort on the part of county departments and County Executive staff. I am particularly thankful to all department heads and their staff for cooperatively developing their departmental budgets in a manner that recognized the unprecedented uncertainties in the State's financial climate and the need to maintain critical services for the benefit of our citizens.

Placer County remains one of the fastest growing counties in California. Unfortunately, the substantial economic growth over the last several years in Placer County has not been enough to insulate it from external factors that are expected to have significant impacts on even the most solvent local governments. During the County's Proposed Budget planning process for the upcoming fiscal year, it was recognized that the dire fiscal condition of the State and increasing labor costs were critical elements with which we had to contend. To address these challenges, departments countywide have instituted cost saving strategies that include reductions in service levels to internal and external customers, as well as the deferral of projects, supplies, equipment, vehicle replacements and staff augmentations. Restrictions on expenditure growth have been necessary to balance the budget and stabilize service delivery systems. In an effort to comply with budget goals, departments focused on delivering program priorities and deliberately left many vacant positions unfunded in an effort to preserve the current workforce and avoid layoffs.

It is expected that the impact of service reductions to the public will be minimized as county staff are increasingly challenged to improve productivity. Compounding this year's budget impacts, county departments will be challenged to cope with a shrinking workforce at a time when the population is growing rapidly and requiring increased services. With the combined effects of natural workforce attrition, the implementation of a hiring freeze midyear, and up to 200 anticipated retirements over the next 6-8 months, employee responsibility will continue to expand and caseloads will continue to increase, a situation we will need to monitor carefully. In this budget environment, it will be necessary to retain the cost-saving measures that were instituted in the past fiscal year, such as hiring restrictions, the voluntary furlough program and the recommended deferral or cancellation of non-critical expenditures.

Notwithstanding these concerns, Placer County's Proposed Budget is based upon conservative financial assumptions and represents our best judgment regarding the appropriate allocation of financial resources given the revenues the County can expect to receive over the next fiscal year.

## County Budget Goals

The County's Proposed Budget process continues to be overshadowed by pending decisions at the State level and the resulting risk of significant revenue reductions from state sources during the coming fiscal year. Consequently, the following goals directed the development of the FY 2004-05 budget.

- Develop the department requested budgets at FY 2003-04 base funding levels.
- Maintain critical operations, programs and service levels where possible.
- Continue with planned for and previously funded facility infrastructure, and within overall financial resources provide for investments in Placer County "quality of life" efforts and technology.
- Maintain, where possible, adequate contingencies and reserve levels.

In FY 2003-04 the County Budget incorporated program-level performance measurement information into the budget document. This information assisted county staff in identifying future impacts of current budget decisions and where alternatives for service delivery should be considered.

## FY 2004-05 Placer County Proposed Budget

### Sources of Funds

The FY 2004-05 Operating Budget for Placer County totals \$415,276,242<sup>1</sup> representing an increase of \$11.7 million or 3% over the FY 2003-04 Final Budget<sup>2</sup>. The Operating Budget is supported by \$249.2 million in General Fund revenues, \$129.9 million in other operating fund revenue, and \$36.1 million in fund balances and cancelled reserves (*Table 1*).

**Table 1. Year-To-Year Financing Source Comparison / Operating Budget**

Description	Final Budget FY 2003-04	Proposed Budget FY 2004-05	% Change
General Fund Revenue	\$ 238,192,766	\$ 249,204,540	4.6%
Other Operating Fund Revenue	131,227,644	129,934,259	-1.0%
<b>Total Revenue:</b>	369,420,410	379,138,799	2.6%
Fund Balances & Cancelled Reserves	34,082,127	36,137,443	6.0%
<b>Total Financing Sources:</b>	\$ 403,502,537	\$ 415,276,242	2.9%

The Operating Budget's revenues are projected to increase by 2.6% in the next fiscal year. In the past year, economic conditions have had a mixed effect on Placer County's revenues. The local real estate market has sustained its remarkable growth, contributing to healthy increases in the assessed valuation, however the State's proposed property tax shift (to the Education Revenue Augmentation Fund or ERAF) of \$7.9 million would completely negate any increase in secured property tax revenue that the County would otherwise expect to receive (\$64.1 million, static). With recent developments contained in the Governor's May Revision of the State Budget, we are optimistic that a less financially onerous alternative may be imposed. If this occurs, adjustments will be reflected in the FY 2004-05 Final Budget. Consistent with past practice, the Operating Budget is based upon conservatively estimated revenue.

<sup>1</sup> The Operating Budget are operating funds with proprietary and capital funds excluded from budget totals to avoid double counting of expenditures and revenues (the Proposed Budget for proprietary funds totals \$64.9 million / Capital Budget \$109.4 million).

<sup>2</sup> Final budget figures include technical adjustments for contributions approved by the Board of Supervisors at adoption, and prepared by the Auditor-Controller, that increase fund appropriations by \$37.8 million, with a corresponding increase to revenue. In previous budget practices figures included contributions as transfers, which reduced the fund appropriations (the Final Budget at adoption was \$438.4 million).

The most significant increases in Operating Budget revenue are in charges for services due to Board approved fee increases (\$40.7 million, up \$3 million), other financing sources due to the infusion of funding for capital infrastructure projects (\$49.4 million, up \$5 million), licenses and permits due to a booming construction cycle in the County (\$7.2 million, up \$1.7 million), and sales tax revenue (\$15.2 million, up \$1 million). These increases are offset by decreases or a leveling off of several other sources of discretionary funding such as intergovernmental revenue due to state funding reductions (\$168.6 million, down \$791,911), miscellaneous revenue (\$1.7 million, down \$873,244), and interest earnings (\$3.3 million, down \$185,138). Interest earning declines are the result of record low short-term interest rates, and the maturing and reinvestment of long term, high earning investments at a lower rate.

Figures for fund balance and cancelled reserves are also increased from the FY 2003-04 Final Budget, from \$34.08 to \$36.13, with about one-half of the latter figure related to a one-time reserve cancellation intended for capital infrastructure. Approximately \$17.7 million in capital infrastructure reserves are proposed for cancellation in FY 2004-05 to provide funding for the contribution to the Capital Projects Funds. This will be discussed in more detail in the Capital Facilities and Road Infrastructure section of this narrative. County departments have worked diligently throughout the current fiscal year to deliver a high level of service to constituents while staying within budget constraints. Continuous budget monitoring and oversight is expected to result in a FY 2003-04 year-end carryover fund balance of \$15.0 million for the General Fund and \$2.5 million for all other operating funds. Carryover fund balance is the result of current year expenditure savings, or deferral of costs or projects into the next year, and additional revenue received. In addition to carryover fund balance, the Operating Budget is balanced with \$18.6 million in cancelled reserves. General Fund reserves of \$12.7 million (Designated for Fixed Asset Acquisition) and \$5 million (Designation for Fixed Asset Depreciation) will be cancelled to fund capital infrastructure projects. Open Space reserves of \$201,000 (Designation for Contingency) and \$680,414 (Designation for Open Space Acquisition) will be used for improvements and maintenance of acquired properties.

Placer County's FY 2004-05 Proposed Budget for all operating funds totals \$524,691,769, representing an increase of \$48.4 million or 10% over the prior year's adopted budget, however this figure includes both the Operating Budget and the Capital Budget that will be discussed below.

## Uses of Funds

**Table 2. Operating Budget, Financing Requirements Comparison**

Financing Uses & Provision for Reserves	Final Budget FY 2003-04	Proposed Budget FY 2004-05	% Change
General Fund (100)	\$ 264,221,482	\$ 282,004,039	6.7%
Community Services Fund (103)	1,436,835	1,685,694	17.3%
Special Aviation Fund (107)	28,000	10,200	-63.6%
Public Safety Fund (110)	78,700,444	80,374,950	2.1%
Gold County Tourism & Promotion (115)	340,257	326,799	-4.0%
Public Ways & Facilities Fund (120)	40,038,029	35,744,739	-10.7%
Fish & Game Fund (130)	10,610	10,610	0.0%
Tahoe Tourism & Promotion (145)	4,059,665	4,102,663	1.1%
Open Space Fund (150)	50,000	1,411,414	2722.8%
County Library Fund (160)	3,376,863	4,047,290	19.9%
Fire Control Fund (170)	3,507,323	3,502,149	-0.1%
Debt Service Fund (190)	2,717,935	2,055,695	-24.4%
<b>Total Financing Uses:</b>	<b>398,487,443</b>	<b>415,276,242</b>	<b>4.2%</b>
Provision to reserves	5,015,094	-	-100.0%
<b>Total Financing Requirements:</b>	<b>\$ 403,502,537</b>	<b>\$ 415,276,242</b>	<b>2.9%</b>

Total expenditures in the Operating Budget are proposed to be increased by \$16.8 million or 4.2% (*Table 2*). The provision for reserves decreased from the Final Budget due to the reduction of one time carryover funding from the Road, Open Space, Library, Community Services and Fire Funds placed in reserves in FY 2003-04.

The General Fund increase is primarily the result of a large amount of one time funding for capital infrastructure that will be transferred from reserves in FY 2004-05 to capital infrastructure projects (\$17.7 million).

As in previous years, the Operating Budget was developed after detailed discussions with county department heads and staff. In order to balance the County budget, departments absorbed significant personnel-related cost increases with little or no additional funding. Department budget requests were evaluated by weighing the County's ongoing, critical program needs against the financial responsibility to limit continuing commitments as revenue growth slows and state reimbursements flatten or are eliminated. For the most part, recommended budgets remain at prior year funding levels however, a few budget units have increased. In FY 2004-05 departments submitted net budget requests in excess of \$439.4 million. The recommended Operating Budget is \$415.2 million, or \$24.2 million (5.5% less than department requests).

While the recommended budget is significantly lower than department requests, it is \$16.8 million higher than the adopted FY 2003-04 Final Budget, representing a total increase of 4.3%. The most notable changes from the prior budget year are in salary and benefits (\$11.7 million increase) and other financing uses that include the contribution to infrastructure of \$17.7 million (\$18.8 million increase). These increases are somewhat offset by decreases in services and supplies (\$16.5 million) and fixed assets (\$1.4 million). Included in the Proposed Budget are reductions to specific items: contribution to Open Space (\$500,000, 50% reduction), contribution to road overlay (\$1 million, 50% reduction), contribution to facility infrastructure (\$0, reduced from \$10 million request), and provision for reserves (\$0, reduced from \$5.2 million request).

In an effort to identify the impacts that funding constraints would place on departments, my staff and I met with each department head to discuss proposed funding levels and the corresponding service and program effects that would result in the upcoming fiscal year. Health and Human Services and Public Safety are being seriously impacted as the result of state program funding reductions and rising personnel costs, coupled with a leveling off of funding available to offset those costs. Consistent with a commitment to accountability in our programs, department heads continue to review program activities and funding to identify and implement efficiencies as well as target programs for possible reduction. With the release of the Governor's May Revision and eventual adoption of the State Budget, staff will continue to reconcile long-term program costs with projected local revenues, and will carefully reexamine the entire budget in anticipation of the Board's adoption of the Final Budget.

Much of the County's financial resilience is due to the Board of Supervisors' establishment and maintenance of responsible reserves, which have assisted staff in keeping programs intact during difficult budget years. The Board's prudent planning enabled the County to focus on its priorities while evaluating programs for efficiencies. Unfortunately, there continues to be little in the way of new funding for additional programs or service enhancements for the upcoming fiscal year.

The County Budget includes recommended employee positions of 2,690, a decrease of 5 positions or .2% from the approved position allocation of 2,695 for FY 2003-04 (includes both Operating and Capital Projects Budgets). Coupled with an increase in population, the per-capita number of employees has declined.

### **State of California's FY 2004-05 Proposed Budget**

Over the last two fiscal cycles, Placer County's financial health has been significantly affected by the State of California's actions. State budget decisions to defer state mandated reimbursements to counties resulted in an obligation of over \$6.4 million owed to Placer County at the close of FY 2002-03. With the adoption of the State's current year budget, \$16.8 million dollars in reduced program reimbursement, loans to the State for Motor Vehicle License Fee (VLF) backfill, and other funding reductions were absorbed in the County's FY 2003-04 Final Budget. With the release of the Governor's State FY 2004-05 Budget, the trend to reduce funding or further impact local governments continued, and \$20.7 million was identified as Placer County's share of this impact. Affected areas included a property tax shift from general purpose revenue to the State; health, mental health and social service program revenue reductions; continued deferrals for state mandate reimbursement; transportation funding

reductions; cost shifts for family support programs; and other county program funding reductions or deferrals. **State budget impacts on Placer County for the three aforementioned budget cycles equate to \$43.9 million.** Over time, the County's ability to absorb these impacts with limited program or service level reductions has been eroded.

Encouraging news came with the release of the Governor's May Revision of the Proposed State Budget, in which he replaced the proposed \$1.3 billion property tax shift with a two year VLF / property tax swap. Other provisions of the May Revision are under review. It is expected that several of the Governor's budget proposals will directly affect county programs and services, however the potential loss of general-purpose revenue in the form of property taxes, would have a significant impact on the County budget overall. Although the total impact of the Governor's May Revision has not been fully evaluated at this time, it will likely equate to millions of dollars annually, and will ultimately impact every county department. While the outlook for local government improved with the release of the May Revision, there remain significant program funding impacts, reimbursement deferrals and program realignment for counties to contend with over the next several years. In particular, the State budget targets health, mental health and social service programs, deferrals for state mandate claims, cost shifts for family support programs or revenues, and other county program funding reductions or deferrals. The County plans to exercise caution and fiscal restraint given its reliance on state revenues and the continued slow pace of the economic recovery.

## The Rising Cost of Doing Business

As financial experts predicted, the economic recovery has been slower than initially anticipated. Coupled with escalating personnel costs, the slow recovery places counties and the State in the greatest period of financial uncertainty since the statewide recession of the early 1990's. Personnel related costs in Placer County's operating funds have increased approximately \$11.8 million dollars, or 6.6% from the FY 2003-04 Final Budget. In addition to expected salary adjustments related to labor contract provisions and merit step increases, the cost for employee medical, dental and vision insurance coverage continues to rise at a phenomenal rate. Unfortunately, the poor performance of the investment market in the recent past has resulted in dramatically increased retirement contributions. Because rate adjustments lag behind actual investment market performance, retirement system contributions will continue to remain high for the next few years. Overall, benefit cost volatility will be a concern for the foreseeable future.

## Capital Infrastructure

Over the last decade, the Placer County Board of Supervisors established General Fund reserves as part of a strategic planning effort to address capital infrastructure needs of over \$300 million. In addition to reserves, other revenues have been identified that will contribute to the funding of these large projects, including Capital Facility Impact Fees (assessed on new development that occurs within cities and the unincorporated portion of the County), and Securitized Master Settlement Agreement Revenue (issued in May, 2002). These funding sources are restricted for capital infrastructure projects and are subject to expenditure time constraints.

The FY 2004-05 Capital Project Budget is \$109,415,527 representing an increase of \$36.7 million or 50.4% over the FY 2003-04 adopted Final Budget. The Capital Projects Budget is supported by \$69.7 million in revenues and \$39.7 in fund balance and cancelled reserves (*Table 3*).

**Table 3. Year-To-Year Financing Source Comparison / Capital Projects Budget**

Description	Final Budget FY 2003-04	Proposed Budget FY 2004-05	% Change
Capital Project Fund's Revenue	\$ 38,165,975	\$ 69,708,266	82.6%
Fund Balances & Cancelled Reserves	34,579,670	39,707,261	14.8%
<b>Total Financing Sources:</b>	<b>\$ 72,745,645</b>	<b>\$ 109,415,527</b>	<b>50.4%</b>

Deferral of capital project expenditures is expected to result in a FY 2003-04 year-end carryover fund balance of \$31.9 million for capital project funds. In addition to carryover fund balance, the Capital Projects Budget is balanced with \$7.79 million in cancelled reserves.

Total financing uses for the Capital Projects Budget has increased by \$37 million or 50.4% (*Table 4*). The two capital project funds have increased significantly due to project construction cycles, and the carryover of project funds from the prior year.

**Table 4. Capital Project Budget, Financing Requirements Comparison**

Financing Uses & Provision for Reserves	Final Budget FY 2003-04	Proposed Budget FY 2004-05	% Change
Capital Projects Fund (140)	\$ 46,161,735	\$ 66,265,276	43.6%
Capital Projects Securitization (141)	26,187,402	43,150,251	64.8%
<b>Total Financing Uses:</b>	<b>72,349,137</b>	<b>109,415,527</b>	<b>51.2%</b>
Provision to reserves	396,508	-	-100.0%
<b>Total Financing Requirements:</b>	<b>\$ 72,745,645</b>	<b>\$ 109,415,527</b>	<b>50.4%</b>

Several large infrastructure projects are expected to break ground this year, including the Land Development Building (total project cost estimated at \$25.4 million), the Auburn Justice Center (estimated at \$31.8 million), and Phase I of the South Placer Criminal Justice Center (estimated at \$49.2 million). The latter project will also require about \$23 million in financing, which will be secured in late FY 2004-05 or early FY 2005-06 depending upon the cash flow needs of the project. These budgets also include funding for the renovation of the Fulweiler Administrative Annex, the Public Works Cabin Creek relocation project, and several other priority projects. The provision for reserves decreased from the Final Budget due to the reduction of one time carryover funding the Capital Projects Fund placed in reserves in FY 2003-04. As noted previously, for several years the County has prudently planned for critical needs such as the replacement of antiquated facilities, or the expansion of facilities so that departments would be able to meet the increasing demand for services that result from rapid population growth.

In 2002 the Board approved a Capital Facilities Financing Plan, which now stands as the blueprint for financing capital facilities over the next decade. This Plan was based upon the assumption that the General Fund would contribute up to \$10 million in new funding annually. Due to changing construction costs and funding methods, coupled with the inability of the General Fund to continue providing the \$10 million/year contribution, the Capital Facilities Financing Plan will be updated early in the next fiscal year.

## **Governing for Results Initiative**

The County is now in the second year of implementing its *Governing for Results Initiative* (GFR), a collaborative effort between the County Executive Office and county departments designed to focus on program results, continual quality improvement, customer service, and accountability. The County's Proposed Budget continues the incremental shift from a line-item to a performance-based orientation and improves the County's ability to demonstrate the manner in which resources are allocated to achieve important community goals.

First year accomplishments included the following:

- Adoption of the Board of Supervisor's vision and mission statements and strategic goals for Placer County government.
- Restructured the County's budget format to present budgeting information and Board of Supervisors desired results for each of the five county service systems (Public Protection Services, Land Use Services, Health and Human Support Services, Community and Cultural Services, and Administration and Financial Services).

- Worked with department staff to review department mission statements and core department functions, developed program purpose statements, key intended outcomes, and preliminary performance indicators for every key program included in the budget.

Despite staffing constraints, funding and workforce capacity, county departments continue to demonstrate their support for the performance management concepts and have made great progress in increasing their ability to demonstrate performance accountability.

Second year accomplishments include:

- Departments participated in quarterly financial and performance reviews with Executive Office staff.
- Partnered with the Auditor-Controller's Office to restructure accounting processes to bring cost tracking and reporting into alignment with identified programs.
- Increased performance data reporting of prior year results along with current and future years targets.
- Expanded training and technical assistance with department staff to strengthen information tracking, quality and reliability.
- Departments utilized surveys to assess customer satisfaction.

Plans for the next several years include:

- Expand opportunities to engage the public and other stakeholders in discussions concerning program goals, strategies and performance indicators.
- Support managers' acquisition of skills, capabilities and opportunities in using performance information to develop operational and policy recommendations.
- Link program performance indicators to County strategic goals identified by the Board of Supervisors.
- Work with the Board of Supervisors and other decision-makers to expand opportunities for using performance data for more informed decision-making and for continually improving county operations, services, and outcomes.

## Conclusion

Preparation of the FY 2004-05 Proposed Budget presented some especially notable challenges, given the State's unprecedented financial and leadership problems. Fortunately, the new Governor has taken a strong interest in government accountability and in the importance of local government and its programs. With greater attention being given to local government issues, it is hoped that progress will be made in redefining the state-local relationship and in protecting local revenues. Unfortunately, given the cuts in state funding and increasing labor costs, Placer County will see virtually no program expansion this coming year, despite a high level of growth. If there is a silver lining, it is that Placer County remains financially resilient and will not suffer the dramatic cuts in services and employees currently being experienced in many other counties.

A great deal of credit in this budget process goes to the County's department heads, who identified creative ways to reduce spending and become more efficient. I also extend special thanks to my very capable staff in the County Executive Office, particularly Assistant CEO Robert Bendorf, Principal Management Analyst Therese Leonard, Deputy CEO Darell Ford, Deputy CEO Holly Heinzen and Principal Management Analysts Bekki Riggan and Allison Carlos.

As Placer County continues its rapid growth, it is imperative to use innovative approaches and technologies to increase employee productivity and thereby keep staffing levels adequate, but lean. The public expects accountability in government for the tax dollars it invests. Through the Governing for Results program and an aggressive technology program, we strive to provide better accountability and customer service. And because the Board of Supervisors has planned well for the future and supported an innovative, high quality workforce, a solid foundation exists for the critical work that lies ahead.

Respectfully submitted,

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Jan M. Christofferson  
County Executive Officer